



**Testimony to the Finance Committee
Connecticut General Assembly**

Friday, March 25, 2022

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**HB 5488: AN ACT CONCERNING A RESEARCH AND DEVELOPMENT EXPENSES TAX
CREDIT FOR PASS-THROUGH ENTITIES**

Good morning, Senator Fonfara, Representative Scanlon, Senator Miller, Senator Moore, Representative Kavros DeGraw, Representative Meskers, Senator Martin, Representative Cheeseman, members of the Finance Revenue and Bonding Committee.

I'm Paul Pescatello, Senior Counsel and Executive Director of the Connecticut Bioscience Growth Council.

I am also Chair of We Work for Health Connecticut.

The Connecticut Bioscience Growth Council is a committee of the Connecticut Business and Industry Association's biotech and biopharma members.

CBIA is Connecticut's largest business organization, with thousands of member companies, small and large, representing a diverse range of industries from across the state. Ninety-five percent of our member companies are small businesses, with fewer than 100 employees.

The Bioscience Growth Council was formed to foster collaboration both among Connecticut biotech and biopharma companies and, just as importantly, *with* our state. The Bioscience Growth Council's central aim is to represent biotech and biopharma companies and life science research institutions to help grow this important sector of the Connecticut economy. As you know, Connecticut – *this* General Assembly – has chosen wisely to invest in the life sciences as a means to help patients and their families find effective treatments and cures and build a new pillar for job creation across the Connecticut economy.

I am here today to testify in support of HB 5488, An Act Concerning a Research and Development Expenses Tax Credit for Pass-Through Entities. My comments today are applicable to all pass-through entities, not only biotechnology companies, though I will focus on biotech as a prime example of why this change makes so much sense.

HB 5488 is a Common Sense Update to the Tax Code

Increasingly, technology companies begin life – in the case of biotechs, as they emerge from academic labs – as limited liability companies, “LLCs.” LLCs allow for “pass through” of a business’s income to the owners of the LLC. Taxation occurs at one level and as part of the owner’s individual tax returns. The pass-through form allows start-ups to invest more of their resources in research and development rather than in tax and accounting administration. Unfortunately, in order to utilize the R&D tax credits they have earned as a result of their substantial R&D investments, under existing law new ventures are forced to choose the complexity of the C Corporation form.

Given how common the LLC form has become it makes sense to update the tax code so that R&D incentives intended for businesses of any form are applicable to LLCs, not only “corporations.”

HB 5488 is a Very Effective Economic Development Tool

The life sciences and biopharma companies and research organizations – our legacy large biopharma companies, the clusters of innovative start-ups around Yale, University of Connecticut and Jackson Labs – are defined by research and development.

In order to harvest the dividends promised by Connecticut’s investment in the life sciences – the good jobs and the powerful and hugely positive ripple effect of private sector biopharma investment across the Connecticut economy – it is critical that state law be neutral as to the type of entity chosen by entrepreneurs as the legal vessel for commencing operations.

It takes about 12 years and \$2.7 billion to bring a new medicine from concept to the finish line of an FDA approved product available on pharmacy shelves. Most life sciences research leads to new insights and further research. The state where all this research occurs gets the benefit of the research investment dollars being circulated throughout its economy.

Since biopharma is about research and development it is not difficult to see that scientists, entrepreneurs, investors and company executives choose where to do their research and development, where to set up their essential operations, in places that recognize the great value that comes with the commitments and risks inherent in huge research and development spends.

For state government, the means to recognize the value of research and development spending to the state is through the tax code.

The incentive is: do your research and development here, make your vast research and development investments here, take your risks here and we will give you a credit against *future* income.

The bargain is, the benefit to the state is: Connecticut gets the benefit *now* of all those investment dollars infused into our economy, Connecticut receives all the income and property and sales taxes paid by biopharma employees for a credit against *future* income. It cannot be underscored enough: research and development tax credits are earned by companies only *after* they’ve made an investment, *after* they’ve spent funds in Connecticut.

An analysis by the Connecticut Office of Legislative Research shows the return on investment in research and development for the state is substantial. For every dollar of research and development tax credit claimed, Connecticut earns between \$1.24 and \$2.36. The state gains between 1,406 and 3,648 jobs each year because of the R&D tax credit. That's very effective policy – it makes much common sense to use this policy to incentivize pass-throughs in the same way as C-corps.

The R&D Tax Credit Amplifies Venture Capital Investment in Connecticut

In conclusion, I note that the Bioscience Growth Council is asked often what can Connecticut do to encourage existing biopharmas to expand here, out-of-state biopharmas to move to here and start-up biopharmas to set up shop in Connecticut.

Two factors drive these decisions. First, the strength of the local research institutions. We are fortunate to have such strength in Yale, UConn and Jackson Labs.

The second driver of biopharma research and development business activity is access to investment capital. As I've noted, biopharma uniquely consumes vast amounts of research and development investment dollars. Biopharmas are constantly searching for additional capital. Research and development tax credits essentially extend capital budgets and help biopharma companies to fund their research and development projects. As a form of capital enhancement, research and development tax credits are a powerful incentive to draw biopharma research and development to Connecticut. It should not matter that R&D occurs in a pass-through entity.

We should maximize the effectiveness of our research and development tax credit by updating and expanding it to pass-through entities.

I would be happy to answer any questions you may have or expand upon any points made in my testimony.

Thank you.